

Postal Savings Bank of China (1658 HK)

Conference call takeaway – plenty room to defend near-term hit

We held a post-results conference call with PSBC on 9 Apr, during which management provided some update on operating condition and business outlook. This reaffirmed our view that the Bank will stand out as an excellent defensive play against macro slowdown amid COVID-19's outbreak.

- **Full-year loan and deposit target is achievable.** PSBC expected new loans in 1Q20 to surpass that in 1Q19, driven by reviving demand and accelerated lending pace in Mar. In particular, management saw stable expansion in key retail products, such as mortgage and agriculture-related micro financing. However, credit card loan fell RMB5bn in 1Q20. Corporate loan growth remained steady on ample infrastructure and manufacturing project reserves. Favorable policy for new economy and consumption recovery will further stir up credit demand in 2H20.
- **Solid buffer against potential asset quality shock.** PSBC's NPL + SML ratio only amounted to 1.52%, less than 1/3 of sector average. Loss recognition is stringent, as it has classified 97% >30day overdue loans into NPL. Provision coverage of 389.5% was more than twice of sector average, and NPL balance would have to swell 80% to bring provision coverage down to similar level as Big-5 peers (214%). The Bank follows a "barbell" strategy for loan portfolio, where customers are mainly retail/small enterprises or large/quality corporates. Loan exposure to industries directly affected by the pandemic (catering, accommodation, tourism, and entertainment) was merely 0.13%.
- **Multiple tactics to uphold NIM.** During current falling-rate cycle, PSBC will take action on both asset and liability sides to stabilize NIM trend. Detailed measures include: 1) Lifting LDR (53.4% as of 4Q19), which was still 20ppt lower than Big-5 average. 2) Boosting proportion of retail loans (55.3% as of 4Q19) by allocating 60% of new loans to retail segment. 3) Lengthening asset duration. 4) Optimizing deposit structure by raising proportion of demand deposit (up 1ppt to 37.3% in 2H19). 5) Moderately increasing interbank funding based on liquidity condition.
- **MSE business more sustainable vs SOE peers.** Given existing large-scaled MSE loans (13.1% of total loans in 4Q19), PSBC is not subject to regulatory requirement for other SOE banks of realizing 30% MSE loan growth in 1H20 and 0.5ppt overall financing cost decline in 2020. Average yield of PSBC's MSE loans extended in 2019 was 6.25%, 80-90bp above that of Big-5. Moreover, its MSE customers are in a wide range of industries, thus less vulnerable to sector-specific risks.
- **Active cooperation with Fintech players.** Since introducing Ant Financial and Tencent as strategic investors in 2015, PSBC has maintained closer business relationship with Fintech giants compare to banking peers. Mr Liang Shidong, former VP of Ant Financial, joined PSBC as Chief Risk Officer in Jan 2020. PSBC Huabei (邮储花呗), an online consumer finance product, was launched in Oct 2019. Cumulative lending amount has exceeded RMB100bn with <1% NPL ratio.

BUY (Maintain)

Target Price	HK\$ 6.70
(Previous TP	HK\$ 6.70)
Up/Downside	+42.6%
Current Price	HK\$ 4.70

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	480,872
Avg 3 mths t/o (HK\$ mn)	160
52w High/Low (HK\$)	5.44/4.25
Total Issued Shares (mn)	19,856 (H)
	67,122 (A)

Source: Bloomberg

Shareholding Structure

China Post Group	64.73%
China Life	3.84%
China Telecom	1.28%

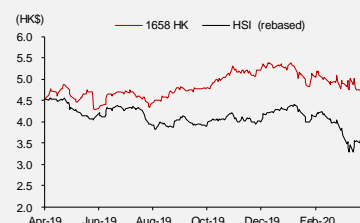
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.6%	-1.4%
3-mth	-11.7%	4.1%
6-mth	-2.1%	3.6%
12-mth	2.8%	27.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Robust earnings growth despite moderate NPL uptick – 26 Mar 2020
2. A defensive play with visible growth outlook – 6 Mar 2020
3. Excess provisions buffering NIM contraction – 30 Oct 2019
4. Earnings growth tops large bank peers – 21 Aug 2019
5. Earnings picked up with asset quality a bright spot – 26 Apr 2019

- **Maintain BUY and HK\$6.70 TP.** We kept our FY20-22E earnings forecasts unchanged. Our TP of HK\$6.70 is based on GGM-derived target P/B of 0.95x and FY20E BPS of RMB6.3.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	261,245	277,116	299,400	326,474	360,359
Net profit (RMB mn)	52,311	60,933	68,383	77,880	90,365
EPS (RMB)	0.62	0.72	0.76	0.87	1.01
EPS CHG (%)	4.7	16.9	5.7	13.9	16.6
Consensus EPS (RMB)	NA	0.70	0.76	0.83	0.93
P/E (x)	6.8	5.9	5.5	4.9	4.2
P/B (x)	0.80	0.73	0.67	0.61	0.55
Dividend yield (%)	4.6	5.0	5.6	6.4	7.4
ROE (%)	12.3	12.7	12.7	13.2	13.9
NPL ratio (%)	0.86	0.86	0.90	0.92	0.94
Provision coverage (%)	347	389	390	391	401

Source: Company data, Bloomberg, CMBIS estimates

Figure 1: PSBC's loan portfolio and NPL ratio

(RMB mn) Sector	FY19			FY18		
	Balance	Proportion	NPL ratio	Balance	Proportion	NPL ratio
Corporate						
Manufacturing	273,074	5.5%	3.55%	240,122	5.6%	2.40%
Transportation and storage	508,233	10.2%	0.02%	418,878	9.8%	0.04%
Leasing and commercial services	99,571	2.0%	0.45%	86,909	2.0%	0.17%
Power production and supply	187,145	3.8%	0.06%	191,948	4.5%	0.06%
Wholesale and retail	104,441	2.1%	3.81%	88,551	2.1%	4.86%
Real estate	70,158	1.4%	0.02%	56,345	1.3%	0.03%
Public facilities management	71,449	1.4%	0.04%	76,810	1.8%	0.04%
Construction	103,094	2.1%	0.16%	82,399	1.9%	0.39%
Mining	58,479	1.2%	0.10%	56,100	1.3%	0.14%
Financial services	206,322	4.1%	-	192,527	4.5%	-
Others	58,598	1.2%	1.54%	61,813	1.4%	1.88%
Total corporate loans	1,740,564	35.0%	0.89%	1,552,402	36.3%	0.78%
Retail						
Mortgage	1,700,049	34.2%	0.38%	1,417,898	33.2%	0.36%
Credit card	123,188	2.5%	1.74%	99,313	2.3%	1.67%
Consumption	317,350	6.4%	1.23%	275,544	6.4%	1.19%
Business	610,201	12.3%	2.42%	527,085	12.3%	2.81%
Total retail loans	2,750,788	55.3%	0.99%	2,319,840	54.2%	1.07%
Discounted bills	482,834	9.7%	-	404,623	9.5%	-
Total loans	4,974,186		0.86%	4,276,865		0.86%

Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	360,166	388,238	417,404	456,404	499,225
Interest expenses	(126,044)	(148,014)	(162,100)	(180,077)	(195,962)
Net interest income	234,122	240,224	255,304	276,328	303,263
Net fee income	14,434	17,085	20,502	24,192	28,547
Others	12,689	19,807	23,594	25,954	28,549
Operating income	261,245	277,116	299,400	326,474	360,359
Operating expenses	(152,324)	(157,976)	(167,317)	(178,144)	(190,525)
PPoP	108,921	119,140	132,083	148,330	169,834
Provision	(55,434)	(55,395)	(60,557)	(66,885)	(75,351)
Operating profit	53,487	63,745	71,526	81,445	94,483
Non-operating income	-	-	-	-	-
Pre-tax profit	53,487	63,745	71,526	81,445	94,483
Income tax expenses	(1,103)	(2,709)	(3,040)	(3,461)	(4,015)
Minority interests	(73)	(103)	(103)	(103)	(103)
Net profit	52,311	60,933	68,383	77,880	90,365

Key Ratio

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	90%	87%	85%	85%	84%
Net fee income	6%	6%	7%	7%	8%
Others	5%	7%	8%	8%	8%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	24.5%	2.6%	6.3%	8.2%	9.7%
Net fee income	13.3%	18.4%	20.0%	18.0%	18.0%
Operating income	16.2%	6.1%	8.0%	9.0%	10.4%
PPoP	39.9%	9.4%	10.9%	12.3%	14.5%
Net profit	9.7%	16.5%	12.2%	13.9%	16.0%
Gross loans	17.8%	16.3%	15.0%	15.0%	13.0%
Customer deposits	7.0%	8.0%	9.0%	8.5%	8.5%
Efficiency					
Cost-to-income ratio	57.6%	56.3%	54.9%	53.5%	51.8%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	1,155,444	1,110,921	1,210,443	1,312,896	1,424,057
Interbank assets	665,660	445,364	454,271	463,357	472,624
Investments	3,387,487	3,673,977	3,799,383	3,864,594	3,997,624
Gross loans	4,276,865	4,974,186	5,720,314	6,578,361	7,433,548
Less: provision	127,327	166,124	200,346	237,242	279,278
Other assets	158,082	178,382	233,051	205,894	200,524
Total assets	9,516,211	10,216,706	11,217,116	12,187,859	13,249,099
Due to central banks	-	-	-	-	-
Interbank liabilities	248,929	171,706	197,462	227,081	261,143
Customer deposits	8,627,440	9,314,066	10,152,332	11,015,280	11,951,579
Debt securities issued	76,154	96,979	111,526	128,255	147,493
Other liabilities	88,375	89,076	82,542	89,128	96,273
Total liabilities	9,040,898	9,671,827	10,543,862	11,459,744	12,456,488
Shareholders' equity	474,404	543,867	672,242	727,103	791,599
Incl. Perpetual bonds	-	-	80,000	80,000	80,000
Incl. Preferred stocks	47,869	47,869	47,869	47,869	47,869
Minority interest	909	1,012	1,012	1,012	1,012
Total equity	475,313	544,879	673,254	728,115	792,611

Asset quality					
NPL ratio	0.86%	0.86%	0.90%	0.92%	0.94%
Provision coverage	347%	389%	390%	391%	401%
Provision/ total loans	2.98%	3.34%	3.50%	3.61%	3.76%
Credit costs	1.09%	1.03%	0.98%	0.95%	0.95%
Capital adequacy					
CET-1 CAR	9.8%	9.9%	9.9%	9.9%	10.0%
Tier-1 CAR	10.9%	10.9%	12.2%	12.0%	11.9%
Total CAR	13.8%	13.5%	14.8%	14.6%	14.5%
Profitability					
NIM	2.67%	2.50%	2.46%	2.43%	2.43%
ROE	12.3%	12.7%	12.7%	13.2%	13.9%
ROA	0.54%	0.59%	0.61%	0.64%	0.69%
RoRWA	1.14%	1.26%	1.26%	1.30%	1.38%
Per share					
EPS (RMB)	0.62	0.72	0.76	0.87	1.01
DPS (RMB)	0.19	0.21	0.24	0.27	0.31
BPS (RMB)	5.26	5.75	6.26	6.89	7.63

Source: Company data, CMBIS estimates

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